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FOR IMMEDIATE RELEASE

Terry Goddard Urges Congress to Amend Bankruptcy Code To Protect Distressed Homeowners from Foreclosure

(Phoenix, Ariz. – Jan. 6, 2009) Attorney General Terry Goddard, along with the Attorneys General of 21 other states and the District of Columbia, sent a letter to U.S. House and Senate Leadership today advocating an amendment to the U.S. Bankruptcy Code to permit federal Bankruptcy Courts to protect families from foreclosure.

“With the nation’s foreclosure crisis growing more severe, this amendment can be a win for both homeowners and mortgage holders,” Goddard said. “Bankruptcy judges are well-qualified to work out fair terms that will allow more families to stay in their homes.”

The Attorneys General note in their letter that, despite the best efforts of state and federal government regulators to engage mortgage servicers in voluntary loan modifications, further action to spur meaningful adjustments must be taken. For instance:

- The most troubled mortgages are securitized and therefore multiple stakeholders may be involved in the decision to modify mortgage loans, causing a continued paralysis.
- The multi-state Foreclosure Prevention Working Group released a report compiled from data from 13 major servicers in September 2008 showing that voluntary loan modification measures have fallen short. (That report is available at http://www.azag.gov/press_releases/sept/2008/Working%20Group%20Report%20No.%203.pdf)
- The recently-enacted federal “Hope for Homeowners” program has generated little interest from mortgage holders. The Department of Housing and Urban Development (HUD) recently reported that only 111 applications had been submitted nationwide.

Under the amendment urged by the Attorneys General, losses and benefits would be shared between homeowners and investors. If a federal Bankruptcy Court ordered a loan modification, the homeowner would be required to pay the loan based on the current secured value, and the mortgage holder may be required to absorb the unsecured portion of the debt which exceeds the value of the home. A homeowner with regular income will retain his or her home while paying a sustainable mortgage. The mortgage holder will receive a steady stream of income while avoiding the losses and expenses in a foreclosure sale.

Today's letter highlights the reasons that the bankruptcy system is well-equipped to handle this crisis. With approximately 300 judges experienced in valuing property, no new agency, regulations or personnel are needed to implement the amendment. The proposal could take effect immediately and should not cost taxpayers anything.

The Attorneys General do not anticipate an increase in bankruptcy filings by passing such an amendment. Instead, they believe such a measure will likely motivate mortgage servicers and secondary market investors to achieve sustainable loan modifications.

Attorneys General from the following states joined today's request to Congress: Arizona, California, Connecticut, Delaware, District of Columbia, Illinois, Iowa, Kentucky, Louisiana, Massachusetts, Minnesota, Mississippi, Montana, New Mexico, North Carolina, Ohio, Oklahoma, Rhode Island, South Dakota, Tennessee, Vermont, Washington and West Virginia.

Copies of the letters are attached and available on the Attorney General's Web site, www.azag.gov. For more information, please contact Anne Hilby at (602) 542-8019.

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